



DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS
Dover, Delaware

AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2006

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

| | PAGE |
|---|------|
| INDEPENDENT AUDITOR'S REPORT | 1 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 3 |
| AUDITED FINANCIAL STATEMENTS | |
| Fund Financial Statements: | |
| Balance Sheet | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 6 |
| Notes to the Basic Financial Statements | 7 |
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund | 11 |
| OTHER INFORMATION | |
| Schedule of Findings and Questioned Costs | 12 |



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF TRUSTEES
DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
Dover, Delaware

We have audited the accompanying financial statements of the special revenue fund of the Delaware Agricultural Lands Preservation Foundation – Administrative Funds (the Administrative Funds) as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Administrative Funds' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the special revenue fund of the Administrative Funds as of June 30, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, the financial statements present only the financial statements of the Administrative Funds and are not intended to present the financial position and results of operations of the Delaware Agricultural Lands Preservation Foundation or the State of Delaware in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2006 on our consideration of the Administrative Funds' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

December 5, 2006



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF TRUSTEES
DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
Dover, Delaware

We have audited the financial statements of the special revenue fund of the Delaware Agricultural Lands Preservation Foundation – Administrative Funds (the Administrative Funds) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Administrative Funds' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we also noted certain additional matters that we reported to management of the Administrative Funds in a separate letter dated December 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administrative Funds' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Administrative Funds' management, Board of Trustees, Department of Agriculture, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Department of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

December 5, 2006

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

BALANCE SHEET
JUNE 30, 2006

| <u>ASSETS</u> | <u>SPECIAL REVENUE FUND</u> |
|------------------------------------|---------------------------------|
| Cash and Cash Equivalents | \$ 171,742 |
| Rollback Taxes Receivable | <u>16,245</u> |
| TOTAL ASSETS | <u>187,987</u> |
| <u>LIABILITIES</u> | |
| Accounts Payable | 34,429 |
| Accrued Salaries and Related Costs | <u>4,853</u> |
| TOTAL LIABILITIES | <u>39,282</u> |
| <u>FUND BALANCE</u> | |
| Unreserved | <u>148,705</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 187,987</u> |

See accompanying notes to the basic financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2006

| | <u>SPECIAL REVENUE FUND</u> |
|--|---------------------------------|
| REVENUES | |
| Grant - State of Delaware | \$ 150,000 |
| Rollback Taxes | 46,964 |
| Interest Income | 8,210 |
| Donations | <u>705</u> |
| TOTAL REVENUES | <u>205,879</u> |
| EXPENDITURES | |
| Current | |
| General Government | <u>330,575</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (124,696) |
| FUND BALANCE AT BEGINNING OF YEAR | <u>273,401</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 148,705</u> |

See accompanying notes to the basic financial statements.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Delaware Agricultural Lands Preservation Foundation - Administrative Funds (the Administrative Funds) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Administrative Funds are described below.

Organization

On July 8, 1991, the Governor of the State of Delaware signed House Bill 200 to amend Chapter 9, Title 3, of the Delaware Code. The legislation established a comprehensive agricultural lands preservation program to serve the long-term needs of the agricultural community and the citizens of Delaware. It is declared policy of the State to conserve, protect, and encourage improvement of agricultural lands within the State for the production of food and other agricultural products useful to the public, which are grown, raised, or harvested on lands and water in the State of Delaware.

The Delaware Agricultural Lands Preservation Foundation (the Foundation) was created by this legislation to accomplish this mission by establishing Agricultural Preservation Districts of viable and productive farmland and forestland. The Foundation is directed to provide economic incentives and benefits to agribusiness, purchase development rights from landowners, encourage development in areas where infrastructures exist, and promote the agricultural industry and the concept of preserving viable land for the future.

The enabling statute for the Foundation established a trust fund. Monies for farmland preservation have come from the 21st Century Fund set up by the General Assembly under the control of the Secretary of Finance and released to accounts within the Delaware Department of Agriculture under the certification and subsequent control of the Secretary of Agriculture. Federal funds and monies from the Capital Budget, earmarked for agricultural lands preservation district creation, is also solely the responsibility of the Delaware Department of Agriculture. All accounting of these expenditures is within the State of Delaware's accounting system, DFMS.

The General Assembly of the State of Delaware provided funding for the administrative costs of the Foundation in the amount of \$150,000 for the year ended June 30, 2006. These funds are administered directly by the Foundation in separate fund accounts. The transactions recorded in those separate accounts are reported in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Administrative Funds consider revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Administrative Funds report only one fund, which is the special revenue fund.

Cash and Cash Equivalents

Except for the checking account, cash and cash equivalents of the Administrative Funds are controlled by the State Treasurer's Office in Dover, Delaware. The checking account is controlled by the Administrative Funds.

Receivables

All receivables are considered fully collectible by management. No allowance for bad debts is deemed necessary.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2006, the Administrative Funds has a cash and cash equivalents balance of \$171,742. Of that amount, \$169,346 is part of an investment pool controlled by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the Administrative Funds, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE B - CASH AND CASH EQUIVALENTS - CONTINUED

investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The checking account is in the custody of Administrative Funds officials. The book and bank balances of these funds were \$2,396 and \$13,173, respectively. The bank balance of cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits.

NOTE C - ROLLBACK TAXES

Under the provisions of House Bills 200 and 630, rollback taxes under the Farmland Assessment Act are directed to be paid by the Counties to the Foundation. In the Farmland Assessment Act of 1969, provision is made for a rollback tax. These rollbacks occur whenever lands qualified under the Farmland Assessment Act are changed in use from agriculture to some other use. Under the provisions of House Bill 630, a change of use was further defined as changes in zoning, subdivision, building permits, or certificate of occupancy status. On the day that such rollback takes effect, a tax obligation is created for the owner of record. The tax is computed as the difference in the taxes that would have been paid without Farmland Assessment, and the taxes that were in fact paid under Farmland Assessment for five years previous to the date of change in use. This sum of money is due and payable to the County and is then directed by the County to two recipients.

The first recipient is the school district within which the property lies, and the second is the Foundation. The share of the money from the rollback tax, which is computed for each of these recipients, is based upon their proportionate share of the tax rate, which was in effect during the

five years on which the rollback was computed. Under statute, the County forwards to the school district board that portion of the rollback tax attributable to the local school district. From the remaining funds, the County removes a 7.5 percent administration fee as provided by statute, and forwards the remaining dollars to the Administrative Funds.

The Administrative Funds record any rollback taxes collected by the Counties as of June 30, but not remitted to the Administrative Funds until later as a rollback tax receivable. The amount of the rollback taxes receivable was \$16,245 as June 30, 2006.

NOTE D - ACCOUNTS PAYABLE

Accounts payable represents consulting contractual services and legal expenses incurred by the Administrative Funds prior to the end of the fiscal year, but not paid until the following fiscal year. Accounts payable for the year ended June 30, 2006 was \$34,429.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE E - FUND BALANCE

Accounts payable of \$1,757 related to legal fees was incorrectly recorded on the Administrative Funds' fiscal 2005 financial statements. Proper classification of this amount results in a restatement of fund balance from \$271,644 to \$273,401.

NOTE F - PENSION PLAN

Administrative Funds employees are considered State employees and are covered under the State's pension program. The State contributed 15.02 percent for fiscal year 2006 of the State's share of the employee's salary. Employees contribute 3 percent of salary in excess of \$6,000 per share up to social security maximum and 3 percent for any salary above social security maximum. Total pension cost of \$9,170 is included in the financial statements. Pension costs accrued at June 30, 2006 were approximately \$750. Certain significant plan provisions follow:

- Early Retirement:
 - a. 15 Years Service – Age 55
 - b. 25 Years Service – Any Age
- Service Retirement:
 - a. 15 Years Service – Age 60
 - b. 30 Years Service – Any Age
 - c. 5 Years Service – Age 62
- Disability Retirement:
 - a. 5 Years Service and Proof of Disability
- Vested Pension:
 - a. An employee can vest pension rights after five years of service.

NOTE F - PENSION PLAN

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904, or calling 1-800-722-7300, or visiting their website at www.delawarepensions.com/information/financials.shtml.

NOTE G - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Administrative Funds do not anticipate losses from these transactions.

REQUIRED SUPPLEMENTAL INFORMATION

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2006

| | <u>BUDGETED AMOUNTS*</u> | | <u>ACTUAL</u> <u>AMOUNTS</u> | <u>VARIANCE</u> <u>WITH FINAL</u> <u>BUDGET</u> <u>POSITIVE</u> <u>(NEGATIVE)</u> |
|--|--------------------------|--------------------|---------------------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| REVENUES | | | | |
| Grant-State of Delaware | \$ 150,000 | \$ 150,000 | \$ 150,000 | \$ - |
| Rollback Taxes | 66,720 | 66,720 | 46,964 | (19,756) |
| Interest Income | 2,741 | 2,741 | 8,210 | 5,469 |
| Donations | - | - | 705 | 705 |
| TOTAL REVENUE | <u>219,461</u> | <u>219,461</u> | <u>205,879</u> | <u>(13,582)</u> |
| EXPENDITURES | | | | |
| Auditors | 36,225 | 36,225 | 18,100 | 18,125 |
| Conferences and Seminars | - | - | 25,000 | (25,000) |
| Insurance | 3,000 | 3,000 | 3,000 | - |
| Legal Fees | 13,149 | 13,149 | 83,547 | (70,398) |
| Mapping | 33,058 | 33,058 | 33,058 | - |
| Miscellaneous | 668 | 668 | 8,533 | (7,865) |
| Office Supplies and Expense | 4,690 | 4,690 | 5,169 | (479) |
| Other Contractual Services | 8,594 | 8,594 | 8,333 | 261 |
| Research | 60,000 | 60,000 | 50,702 | 9,298 |
| Telephone | 1,671 | 1,671 | 1,764 | (93) |
| Travel | 8,710 | 8,710 | 8,496 | 214 |
| Wages | 79,500 | 79,500 | 84,873 | (5,373) |
| TOTAL EXPENDITURES | <u>249,265</u> | <u>249,265</u> | <u>330,575</u> | <u>(81,310)</u> |
| EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES | <u>\$ (29,804)</u> | <u>\$ (29,804)</u> | (124,696) | <u>\$ (94,892)</u> |
| Fund Balance at Beginning of Year | | | <u>273,401</u> | |
| Fund Balance at End of Year | | | <u>\$ 148,705</u> | |

* Note: The Administrative Funds' budget is prepared on the modified accrual basis of accounting.

DELAWARE AGRICULTURAL LANDS PRESERVATION FOUNDATION
ADMINISTRATIVE FUNDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Delaware Agricultural Lands Preservation Foundation – Administrative Funds.
2. No reportable conditions were identified during the audit of the basic financial statements of Delaware Agricultural Lands Preservation Foundation – Administrative Funds.
3. No instances of noncompliance material to the financial statements of Delaware Agricultural Lands Preservation Foundation – Administrative Funds were disclosed during the audit.

FINDINGS – COMPLIANCE REPORTING

None.

FINDINGS – FINANCIAL REPORTING

None.

STATUS OF PRIOR AUDIT FINDINGS

None.